

July 31, 2017

Councillor Brian Gomes, Chair
Clerk of Committees
133 Williams Street
New Bedford, MA 02740

Dear Mr. Gomes,

Kerry Britland, Director of Regulatory Affairs and I came before you and the Committee on Appointments and Briefings to discuss Eversource's Rate Case which is before the Department of Public Utilities on May 22, 2017. Two questions were posed at this meeting which required a written response. The questions came from Councilors Lopes and Dunn who I had follow-up conversations with after the hearing. What follows are answers to those questions.

In regards to the question on profits, there is no guaranteed profits or "ROE" (return). Moreover, the Company earns its authorized return for two reasons. First, the Company had a merger rate freeze in place so that it could pursue and achieve merger savings, and it did achieve these savings. For NSTAR Electric and WMECO, the Company took \$30M a year out of the business. Without these savings, the rate request would be on the order of \$125M, instead of \$96M. Because rates are fixed, anytime you eliminate costs, you earn more. So, earning a good ROE means that the Company is very successful in reducing operating costs. However, when you reset rates, all those cost reductions transfer to customers in the (lower) cost of service. In this rate case, all of the cost savings that the Company has achieved in the past are captured in the test period level of expenses. The DPU knows this, as does the Attorney General. Therefore, earning the ROE is not necessarily a bad thing for customers.

The amount of the proposed "rate hike" is not based on the "profit Eversource would like to return to shareholders."

The amount of the rate request is based on the Company's cost of providing service to customers, based on actual costs incurred in the test period, July 1, 2015 through June 30, 2016. Part of the cost of service is a "fair and reasonable" return for use of the funds that are invested in the Company to pay for capital investments that are made to provide service to customers. However, the overall rate request is a function of the Company's need to recover its costs of providing service, including the return on assets, but also expenses that it incurs to provide service.

The "fair and reasonable" return for utility assets is a standard found in the U.S. Constitution. In this case, the DPU will conduct an investigation into what constitutes a "fair and reasonable" return under the law. The Company is proposing that the fair and reasonable return is 10.5%, which is the rate of return it has today and has had since settling with the AG in

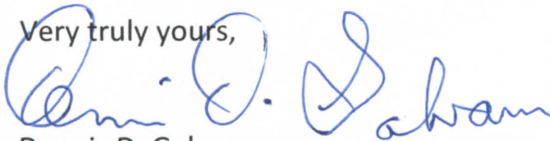
2005. Whatever the DPU sets, it is only a target. It is not guaranteed. It is only one element in the mathematical equation to set the "revenue requirement." The only way the Company will earn this rate of return is to be very efficient in managing cost increases after rates are set, including controlling the costs of capital investments.

Under the ratemaking practice, the Company earns a return on capital investments made for customers. These investments are included in "rate base" when rates are set. The cost of capital projects (or "rate base"), by law, is ultimately the responsibility of customers because the projects were completed to provide safe and reliable service to customers. The "revenue requirement" is set to recover the cost of these investments, once they are placed into "rate base". The projects cannot be placed into rate base, unless and until the DPU reviews and approves the cost of the projects. So, under the law, customers will pay for these projects through rates, once the DPU decides that the costs of those projects were necessarily and reasonably incurred (and that's what this case is largely about, reviewing those projects).

Only part of the \$96M revenue deficiency is attributable to the need to add capital investments to rate base. Some of the increase is due to the cost of labor and materials, which is constantly increasing – or other expenses that are necessary to run the system and serve customers.

I hope this response satisfies the questions posed. Please contact me if I can be of further assistance.

Very truly yours,



Dennis D. Galvam
Manager, Community Relations
Massachusetts

Cc: Kerry Britland
Director, Regulatory Affairs, Massachusetts